



OLR RESEARCH REPORT

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2012 DIESEL TAX INCREASE

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You asked (1) why the state's tax on diesel fuel increased on July 1, 2012 and (2) how the diesel fuel tax rate has changed since July 1, 2007.

SUMMARY

The July 1, 2012 increase is the result of an annual recalculation of the diesel fuel tax rate required by law (CGS 2012 Supp., [§ 12-458h](#)). The legislature enacted the recalculation requirement in 2007 when it exempted all diesel fuel, except that used in an electric generating plant to generate electricity, from the 7% tax on petroleum products distributors' gross earnings ([PA 07-199](#) and [PA 07-1](#), June Special Session). Instead, the laws require the Department of Revenue (DRS) commissioner to adjust the per-gallon excise tax on diesel fuel every year to offset the state's revenue loss from the exemption. This required recalculation increased the tax by five cents per gallon, from 46.2 cents to 51.2 cents per gallon, effective July 1, 2012.

Since annual tax rate adjustments started on July 1, 2008, total per-gallon taxes on diesel fuel have increased by 38%. This overall increase reflects two factors: (1) a three-cent per gallon increase in the statutory base diesel tax rate starting July 1, 2011 and (2) higher average market prices for oil.

CONNECTICUT'S DIESEL TAX

The Connecticut tax on diesel has two parts: (1) a flat base rate of 29 cents per gallon and (2) a variable rate based on the average wholesale per-gallon price of diesel for the prior year and the petroleum products gross receipts tax rate in effect for the upcoming year starting every July 1. By law, the DRS commissioner is required to recalculate the second of these two rates every year.

Here is a description of the required calculation:

- By June 15 annually, the DRS commissioner must determine the average wholesale price per gallon for diesel fuel during the 12 months ending on the preceding March 31 or, if the first or last day of the 12-month period is a Sunday or holiday, the next regular day. He must use wholesale price information published by the Oil Price Information Service and average the price information for the Hartford/Rocky Hill and New Haven terminals.
- The variable part of the diesel tax rate applicable for the 12 months starting each July 1 is: (1) the average wholesale diesel price, multiplied by (2) the petroleum products gross earnings tax rate in effect starting July 1, and (3) rounded to the nearest 10th of a cent. The petroleum products gross receipts tax for 2012 is 7%.
- This calculation yields a variable rate of 22.2 cents per gallon. Adding this to the statutory base diesel rate of 29 cents per gallon yields a diesel tax rate, for the 12 months beginning July 1, 2012, of 51.2 cents per gallon.

DIESEL TAX RATE CHANGES SINCE 2007

As described above, three factors affect the diesel tax rate, of which two, the base per-gallon diesel tax rate and the petroleum products gross earnings tax rate, are set by statute and subject to legislative control. The third component, the average wholesale price of diesel fuel over the previous 12 months at the New Haven and Hartford/Rocky Hill terminals, is set by the world oil market.

When the legislature enacted the petroleum products tax exemption for diesel fuel in 2007, it also increased the diesel tax rate from 26 cents to 37 cents per gallon. The increase was designed to convert the previous 26-cent-per-gallon motor fuel tax plus the percentage petroleum products tax on diesel to an aggregate per-gallon amount. The 37-cent tax was in effect for one year, after which, under the 2007 law, the base

diesel tax reverted to the previous 26 cents per gallon and was combined with the variable portion based on the price of diesel and the petroleum products gross receipts tax rate. The combination tax took effect on July 1, 2008.

Since July 1, 2007, the legislature has increased the base diesel tax rate once, from 26 cents to 29 cents per gallon effective July 1, 2011 ([PA 11-6](#)). The petroleum products gross receipts tax rate has not changed since July 1, 2007. On that date, the tax rate increased from 6.3% to 7% according to a schedule of rate increases adopted in 2005 ([PA 05-4](#), June Special Session). In 2008, the General Assembly eliminated the increase to 7.5% scheduled for July 1, 2008, leaving the tax rate at 7% until the next scheduled increase to 8.1% as of July 1, 2013 ([PA 08-2](#), June 11 Special Session).

Table 1 shows annual diesel tax rates since July 1, 2007. Since the petroleum products tax rate part of the calculation has not changed in the five years since the variable rate was enacted, the changes in the tax are attributable to (1) fluctuations in the market price of oil and (2) the base tax increase as of July 1, 2011.

TABLE 1: CONNECTICUT DIESEL FUEL TAXES SINCE 2007
(Cents per Gallon)

<i>Effective Date</i>	<i>Base Tax</i>	<i>Variable Tax</i>	<i>Total Tax</i>	<i>Change from Prior Year</i>
7/1/07	37.0	None	37.0	11.0
7/1/08	26.0	17.4	43.4	6.4
7/1/09	26.0	19.1	45.1	1.7
7/1/10	26.0	13.6	39.6	(5.5)
7/1/11	29.0	17.2	46.2	6.6
7/1/12	29.0	22.2	51.2	5.0

Source: Connecticut Department of Revenue Services, annual special notices, 2007-2012

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